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College of Business Administration

LOCAL EDUCATION TAXES

Elementary and secondary education in Nebraska is financed primarily by local taxes. The January 1984 *Business in Nebraska* reviewed funding sources. Local taxes constitute 70 percent of elementary and secondary school budgets in the state.

The current discussion about the quality of elementary and secondary education has led to requests for additional state aid. While state aid is important, local taxes will likely remain the most significant source of financing for elementary and secondary education in Nebraska.

This article reviews local taxes for elementary and secondary education and compares it with county personal income. Personal income is one measure, although by no means the only measure, of the capacity to pay for education. In this issue, local taxes collected for elementary and secondary education in 1981/82 are compared with personal income for the years 1980 and 1981. Unfortunately, 1982 income measures were not available. An average of incomes in 1980 and 1981 is used to compare spending since incomes in many Nebraska counties in any single year fluctuate widely because of the farm income component.

DEFINITION

Before turning to an analysis of education expenditures and personal income, it is important to review the personal income concept. Personal income of a county is defined by the Bureau of Economic Analysis, U.S. Department of Commerce, as income received by, or on behalf of, the residents of an area. It includes income received from all sources with wages and salaries being the principal source of income. Personal income also includes transfer payments from the public sector and from private sources, such as company pensions. Interest payments from public dividends are also treated as transfer payments, since one sector is taxed and income is transferred to another sector as interest payments. Personal income includes incomes of individuals, nonprofit institutions, private noninsured welfare funds, and private trust funds. Proprietors' income is also included as income received by individuals.

LOCAL TAXES AND PERSONAL INCOME

Local taxes to support elementary and secondary education in Nebraska 1981/82 totaled $478,180,000. Property taxes are the source of these local taxes for school support. Nebraska's personal income was $14.1 billion in 1980 and $16.3 billion in 1981, or an average of $15.2 billion for the two years. Local taxes to support elementary and secondary education amounted to 3.1 percent of Nebraska's 1980/81 personal income.

As one would expect because of Nebraska's diversity, there are great variations in local taxes to support education and personal income. Blaine County raised $719,000 in local taxes for elementary and secondary education which amounted to nearly one-seventh of the county's personal income 1980/81 (Table 1). Wheeler raised $743 million, or 12.9 percent of 1980/81 personal income. Sarpy County raised $1.4 million in local taxes for elementary and

(continued on page 3)

TABLE 2

Property Taxes Equal to or Greater Than 10 Percent of Personal Income 1980/81

	Percent of Personal Income	Population
Blaine	13.9	867
Keya Paha	10.4	1,301
Loup	11.4	859
Wheeler	12.9	1,060
Average Size		1,022

Property Taxes Equal to 5 Percent But Less Than 10 Percent of Personal Income 1980/81

	Property Taxes ≥ 5% of Personal Income 1980/81	Population
Arthur	9.2	513
Banner	6.4	918
Boyd	5.1	3,331
Chase	5.6	4,758
Clay	5.6	8,106
Frontier	7.6	3,647
Furnas	6.7	6,486
Garden	5.6	2,802
Grant	9.1	877
Greeley	6.7	3,462
Hamilton	5.0	9,301
Hayes	7.6	1,356
Hitchcock	5.4	4,079
Hooker	8.2	990
Howard	5.8	6,773
Jefferson	5.5	9,817
Johnson	5.3	5,285
Logan	6.8	983
McPherson	8.1	593
Merrick	5.1	8,945
Nance	5.3	4,740
Rock	5.0	2,383
Sherman	5.1	4,226
Sioux	6.3	1,845
Thomas	5.5	973
Webster	5.3	4,858
Average Size		3,925

TABLE 1

County	Local Taxes 1981/82 (Thousands of $)	Personal Income 1980/81 (Millions of $)	Percent of Personal Income to Local Taxes for Education
Adams	8,200	310	2.6
Antelope	2,779	76	3.7
Arthur	361	4	9.2
Banner	751	12	6.4
Blaine	718	5	13.9
Boone	2,804	61	4.6
Box Butte	3,818	118	3.2
Boyd	1,258	24	5.1
Brown	1,575	33	4.7
Buffalo	10,113	309	3.2
Burt	3,615	80	4.5
Butler	2,801	78	3.6
Cass	5,871	185	3.2
Cedar	3,825	85	4.5
Chase	2,020	47	5.6
Cherry	2,492	58	4.3
Cheyenne	4,408	111	4.0
Clay	4,258	76	5.6
Colfax	3,735	90	4.2
Cuming	3,327	111	3.0
Custer	5,259	114	4.6
Dakota	3,694	145	2.5
Dawes	2,424	72	3.3
Dawson	7,915	204	3.9
Deuel	1,152	31	3.7
Dixon	2,576	55	4.7
Dodge	10,719	367	2.9
Douglas	113,159	4,467	2.5
Dundy	935	30	3.1
Fillmore	4,072	83	4.9
Franklin	1,824	38	4.8
Frontier	2,275	30	7.6
Furnas	3,652	55	6.7
Gage	6,801	228	3.0
Garden	1,410	25	5.6
Garfield	886	18	4.9
Gosper	562	18	3.2
Grant	738	8	9.1
Greeley	1,740	26	6.7
Hall	12,764	468	2.7
Hamilton	4,136	82	5.0
Harlan	1,537	38	4.0
Hayes	640	8	7.6
Hitchcock	2,107	39	5.4
Holt	4,493	98	4.6
Hooker	691	8	8.2
Howard	3,002	52	5.8
Jefferson	4,857	88	5.5
Johnson	2,189	41	5.3
Kearney	3,561	71	5.0
Keith	4,062	93	4.4
Keya Paha	581	6	10.1
Kimball	2,631	63	4.2
Knox	3,859	78	4.9
Lancaster	50,622	1,949	2.3
Lincoln	9,322	336	2.8
Logan	527	8	6.8
Loup	451	4	11.4
Madison	7,433	319	2.3
McPherson	333	4	8.1
Merrick	3,671	71	5.1
Morrill	2,222	51	4.3
Nance	1,701	32	5.3
Nemaha	2,471	72	3.4
Nuckolls	2,457	54	4.6

TABLE 1 (Continued)

County	Local Taxes 1981/82 (Thousands of $)	Personal Income 1980/81 (Millions of $)	Percent of Personal Income to Local Taxes for Education
Otoe	5,152	136	3.8
Pawnee	1,587	32	5.0
Perkins	2,231	50	4.4
Phelps	3,936	102	3.9
Pierce	2,535	70	3.6
Platte	6,917	287	2.4
Polk	2,724	57	4.8
Red Willow	4,642	122	3.8
Richardson	3,537	94	3.8
Rock	978	20	5.0
Saline	4,743	130	3.7
Sarpy	13,657	695	2.0
Saunders	5,756	166	3.4
Scotts Bluff	10,304	358	2.9
Seward	5,510	120	4.6
Sheridan	2,650	62	4.3
Sherman	1,650	32	5.1
Sioux	678	11	6.3
Stanton	1,200	50	2.4
Thayer	3,425	72	4.8
Thomas	432	8	5.5
Thurston	2,038	55	3.7
Valley	1,905	45	4.2
Washington	4,649	146	3.2
Wayne	3,075	76	4.0
Webster	2,073	39	5.3
Wheeler	742	6	12.9
York	6,099	146	4.2
Nebraska	478,180	15,208	3.1

(continued from page 1)

secondary education which amounted to slightly less than 2 percent of total personal income. Blaine and Sarpy counties represent the extremes in collecting local taxes relative to income for elementary and secondary education.

COUNTY VARIATIONS

Data in Table 1 summarizes local tax expenditures, personal income in 1980/81, and the percentage of personal income devoted to elementary and secondary education. Data in Table 2 summarizes counties where local taxes collected for elementary and secondary education were above 5.0 percent of personal income, while data in Table 3 sets out areas where spending for personal income was below the state average of 3.1 percent.

Four counties used 10.0 percent or more of their personal income to support elementary and secondary education (Table 2). These counties ranged in size from 859 in Loup to 1,301 in Keya Paha. Blaine has 867 inhabitants and Wheeler, 1,060.

Twenty-six counties used at least 5.0 percent, but less than 10.0 percent, of personal income to support education in 1981/82 (Table 2). These counties ranged in size from McPherson, 593, to Hamilton, 9,301. Average population among the 26 was 3,925.

The proportion of personal income spent on elementary and secondary education appears in part to be inversely related to county size. Counties with less than 10,000 inhabitants generally spend a larger proportion of personal income on elementary and secondary education than counties with larger, more dense populations. Possible explanations for this difference include economics to scale, greater density among the more populated counties, and a larger income fluctuation in the smaller counties.

TABLE 3

Counties Where Local Taxes for Education are Equal or Below the State Average of 3.1 Percent

	Percent of Local Taxes	Population
Adams	2.6	30,656
Cuming	3.0	11,664
Dakota	2.5	16,573
Dodge	2.9	35,847
Douglas	2.5	397,038
Dundy	3.1	2,861
Gage	3.0	24,456
Hall	2.7	47,690
Lancaster	2.3	192,884
Lincoln	2.8	36,455
Madison	2.3	31,382
Platte	2.4	28,852
Sarpy	2.0	86,015
Scotts Bluff	2.9	38,344
Stanton	2.4	6,549
Average Size		65,818

Farm income is more important to total income in the more sparsely populated counties so it is always possible that income could be unusually depressed (or inflated) in a small county.

An examination of the data in Table 3 reviews the counties where the proportion of personal income spent on elementary and secondary education is below state average. Douglas, Sarpy, Lancaster, Hall, Adams, Lincoln, and other large counties are the only counties where local property taxes devoted to elementary and secondary education are below the state average. These counties are larger in size than counties spending a higher proportion of personal income on elementary and secondary education.

D.E.P.

Review and Outlook

Net physical output declined 1.5 percent in the Nebraska economy September-October. This month's data is available **only** for the non-agriculture sector of the Nebraska economy. Data for agriculture has not been released by the U.S. Department of Agriculture and will not be available until mid-February.

Information is available on agriculture prices received for Nebraska and the United States. On a month-to-month basis, prices declined 2.4 percent in Nebraska, but increased 0.4 percent nationally (seasonally adjusted). On a year-to-year basis, Nebraska agriculture prices received were up 5.1 percent in October 1983 over one year previous, while nationally prices were up 4.6 percent. Higher prices for corn were primarily responsible for the favorable year-to-year change.

Nebraska's manufacturing sector recorded a 0.3 percent increase September-October 1983. The index continues to gain reflecting an improving economy.

Nebraska's manufacturing output in October 1983 was approximately 8.0 percent above October 1982. Since the February 1983 low, manufacturing output has increased 16.0 percent. Despite the gains, Nebraska's manufacturing sector remained below peak levels reached in 1981. Output would have to expand an additional 14.0 percent from the October 1983 level to equal peak levels.

Physical output from Nebraska's construction sector declined 0.7 percent on a month-to-month basis. Activity in construction is approximately one-third above 1982 levels but remains well below

(continued on page 5)

Notes for Tables 1 and 2: (1) The "distributive" indicator represents a composite of wholesale and retail trade; transportation, communication and utilities; finance, insurance, and real estate; and selected services. (2) The "physical volume" indicator and its components represent the dollar volume indicator and its components adjusted for price changes using appropriate price indexes—see Table 5, page 5.

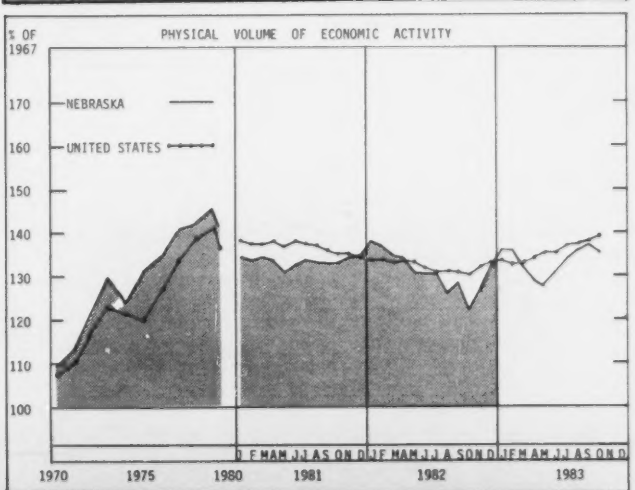
ECONOMIC INDICATORS: NEBRASKA AND UNITED STATES

1. CHANGE FROM PREVIOUS YEAR

OCTOBER 1983	Current Month as Percent of Same Month Previous Year		1983 Year to Date as Percent of 1982 Year to Date	
Indicator	Nebraska	U.S.	Nebraska	U.S.
Dollar Volume	N/A	N/A	N/A	N/A
Agricultural	N/A	N/A	N/A	N/A
Nonagricultural	109.0	109.0	105.1	105.6
Construction	133.7	115.1	117.6	112.8
Manufacturing	110.3	110.2	95.8	99.2
Distributive	107.1	108.9	106.4	107.3
Government	110.4	105.7	108.3	106.8
Physical Volume	N/A	N/A	N/A	N/A
Agricultural	N/A	N/A	N/A	N/A
Nonagricultural	105.7	105.9	101.3	102.1
Construction	133.7	115.1	117.1	112.3
Manufacturing	108.3	108.4	94.6	98.3
Distributive	104.1	105.9	103.1	104.0
Government	103.8	99.4	100.2	99.4

2. CHANGE FROM 1967

Indicator	Percent of 1967 Average	
	Nebraska	U.S.
Dollar Volume	N/A	N/A
Agricultural	N/A	N/A
Nonagricultural	392.5	399.8
Construction	277.4	358.8
Manufacturing	345.1	307.3
Distributive	417.5	453.9
Government	415.5	405.0
Physical Volume	N/A	N/A
Agricultural	N/A	N/A
Nonagricultural	135.9	139.4
Construction	84.8	109.7
Manufacturing	141.1	122.1
Distributive	138.0	150.0
Government	147.0	145.9

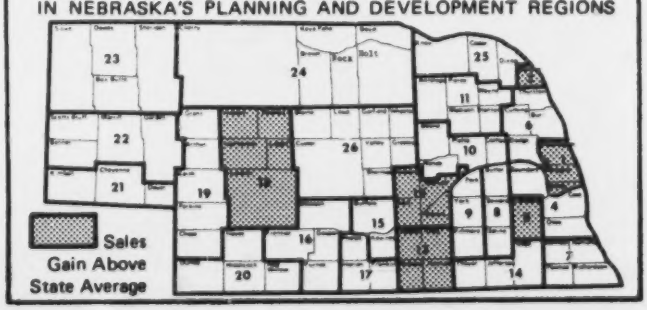


3. NET TAXABLE RETAIL SALES OF NEBRASKA REGIONS AND CITIES

Region Number and City	City Sales*	Sales in Region *	
	Oct. 1983 as percent of Oct. 1982	Oct. 1983 as percent of Oct. 1982	Year-to-date 83 as percent of Year-to-date 82
The State	105.7	107.7	102.4
1 Omaha	119.0	119.0	106.8
Bellevue	120.8		
Blair	95.9		
2 Lincoln	111.3	116.7	107.2
3 So. Sioux City	106.3	109.7	105.3
4 Nebraska City	99.1	93.4	101.3
6 Fremont	100.4	97.7	100.9
West Point	90.4		
7 Falls City	88.6	93.1	100.5
8 Seward	89.0	95.6	102.2
9 York	100.2	98.3	100.0
10 Columbus	99.7	94.0	101.5
11 Norfolk	101.8	95.0	102.6
Wayne	87.2		
12 Grand Island	109.0	106.9	103.4
13 Hastings	107.5	102.7	102.9
14 Beatrice	103.7	95.7	102.3
Fairbury	89.6		
15 Kearney	111.2	104.5	100.7
16 Lexington	102.5	94.4	99.1
17 Holdrege	84.6	86.4	94.9
18 North Platte	105.7	106.0	103.1
19 Ogallala	98.1	90.0	98.3
20 McCook	90.7	87.1	98.8
21 Sidney	107.9	104.8	96.0
Kimball	99.9		
22 Scottsbluff/Gering	101.6	102.7	100.0
23 Alliance	107.2	104.7	101.4
Chadron	104.0		
24 O'Neill	94.0	92.4	96.9
25 Hartington	92.7	87.3	98.0
26 Broken Bow	101.5	95.3	101.1

*State totals include sales not allocated to cities or regions. The year-to-year ratios for city and region sales may be misleading because of changes in the portion of unallocated sales. Regional totals include, and city totals exclude, motor vehicle sales. Sales are those on which sales taxes are collected by retailers located in the state. Compiled from data provided by Nebraska Department of Revenue.

1983 YEAR TO DATE AS PERCENT OF 1982 YEAR TO DATE IN NEBRASKA'S PLANNING AND DEVELOPMENT REGIONS



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the peak levels just as is the case with the manufacturing sector.

Nebraska's distributive trade sector recorded a 2.4 percent decline September-October 1983. This decline undoubtedly reflects in part the removal of the sales tax collections on food. When sufficient experience has been gained with the impact of removing the sales tax on food, the data base for the distributive trade component will be revised. It is impossible to tell with precision, but it seems reasonable that the state's distributive trade activity in October 1983 was roughly the same as that of the previous month. The decline undoubtedly reflects a change in the data base.

Nebraska's retail sales were $708 million in 1983, compared with $657 million in October 1982. Retail sales have been arbitrarily adjusted to reflect the loss of sales tax receipts on food. Unadjusted for price changes, total retail sales were up 7.7 percent on a month-to-month basis, 3.8 percent after adjusting for price changes.

Nonmotor vehicle sales were up 5.7 percent on an unadjusted basis, 2.8 percent when adjusted for price changes. The commodity component of the Consumer Price Index was 2.8 percent higher in October 1983 than it was one year ago. Inflation remains at a very moderate level and will likely continue to provide favorable readings over the next few months.

Motor vehicle retail sales increased 24.5 percent in October 1983, compared with one year ago. When adjusted for price changes, motor vehicle sales were up 12.1 percent. Motor vehicle sales were adjusted by a deflator which measures the price of new and used automobiles. It is believed that this deflator will be more accurate than the overall commodity deflator since the price of automobiles moves somewhat differently from the price of all commodities in general.

Bellevue led all Nebraska communities with a 13.3 percent gain in its city business index. Omaha recorded a 9.8 percent increase, Sidney an 8.9 percent increase, and Broken Bow an 8.1 percent gain. Employment and building activity have improved significantly in the Broken Bow area which has pushed this community higher in October 1983. Bellevue and Omaha led all Nebraska cities in September 1983 and Sidney was also among the top Nebraska communities in 1983.

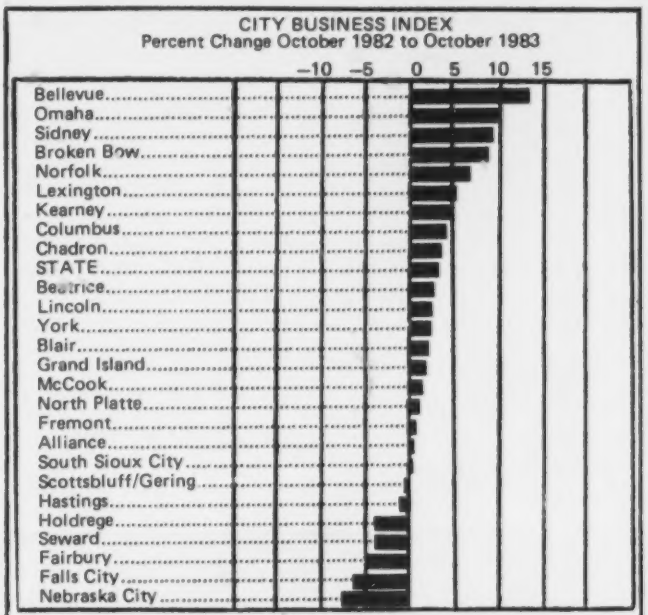
Further economic gains in 1984 are expected due to increasing employment and rising incomes. Nebraska's personal income should reach $19.0 billion by the end of 1984 with real gains of 3.0 to 5.0 percent (after adjusting for price changes). Consumer prices will increase 4.0 to 5.0 percent in 1984 with larger increases occurring late in 1984. Assuming no energy interruptions because of difficulties in the Middle East, consumer prices should increase little during the first few months of 1984. Higher meat prices, however, and increases in food prices in the last half of 1984 will push the annual rate of increase in the Consumer Price Index to around 4.0 to 5.0 percent, 1.0 or 2.0 percent above its current level.

D.E.P.

5. PRICE INDEXES

OCTOBER 1983	Index (1967 = 100)	Percent of Same Month Last Year	Year to Date as Percent of Same Period Last Year*
Consumer Prices	302.6	102.9	103.2
Commodity component	275.0	102.8	103.0
Wholesale Prices	306.3	102.2	101.2
Agricultural Prices			
United States	250.0	104.6	99.8
Nebraska	246.0	105.1	99.7

*Using arithmetic average of monthly indexes.
Sources: Consumer and Wholesale Prices: U.S. Bureau of Labor Statistics; Agricultural Prices: U.S. Department of Agriculture.



Source: Table 3 (page 4) and Table 4 below.

4. OCTOBER 1983 CITY BUSINESS INDICATORS

The State and Its Trading Centers	Percent of Same Month a Year Ago: Employment[1]	Building Activity[2]	Power Consumption[3]
The State	102.5	112.8	104.6
Alliance	101.6	62.5	86.6
Beatrice	102.7	125.4	107.0
Bellevue	102.4	252.1	161.2
Blair	105.6	163.9	105.0
Broken Bow	108.5	273.8	94.8
Chadron	100.7	160.0	87.5
Columbus	107.5	156.9	109.2
Fairbury	101.6	99.5	101.8
Falls City	101.2	82.6	91.7
Fremont	104.9	90.6	101.7*
Grand Island	104.3	54.8	134.9
Hastings	98.4	56.3	75.3
Holdrege	107.8	104.2	95.2
Kearney	104.5	77.6	107.6
Lexington	107.0	156.7	85.7
Lincoln	98.5	86.3	102.3
McCook	113.1	113.7	104.4
Nebraska City	103.2	22.8	108.4
Norfolk	102.0	336.7	112.4
North Platte	97.5	117.3	101.3
Omaha	102.1	145.9	104.9
Scottsbluff/Gering	101.4	92.9	100.6
Seward	103.2	106.2	98.0
Sidney	104.2	276.2	85.3
So. Sioux City	98.0	94.0	104.6
York	105.7	118.0	88.9

[1] As a proxy for city employment, total employment for the county in which a city is located is used.
[2] Building Activity is the value of building permits issued as spread over an appropriate time period of construction. The U.S. Department of Commerce Composite Construction Cost Index is used to adjust construction activity for price changes.
[3] Power Consumption is a combined index of consumption of electricity and natural gas except in cases marked * for which only one is used.

Source: Compilation by Bureau of Business Research from reports of private and public agencies.

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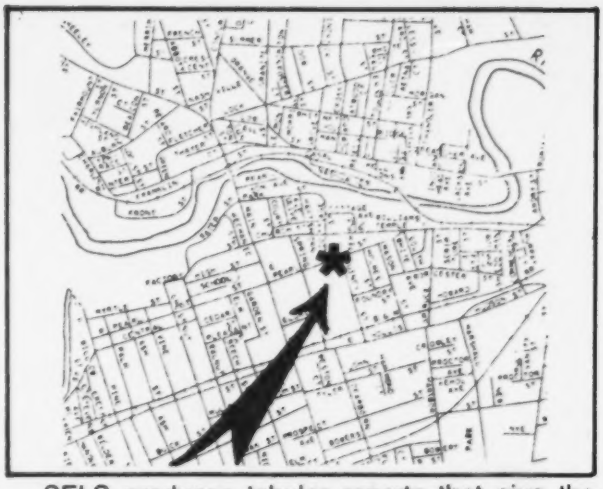

The SITE EVALUATION AND LOCATION SYSTEM (SELS) combines the latest demographic and economic data for counties, communities, and small areas with unique analytical software developed by the staff of the Bureau of Business Research.

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